

**VIRGINIA DEPARTMENT OF  
EMERGENCY MANAGEMENT**

**REPORT ON AUDIT  
FOR THE YEAR ENDED  
JUNE 30, 2008**



## **AUDIT SUMMARY**

Our audit of the Virginia Department of Emergency Management, found:

- proper recording and reporting of all transactions, in all material respects, in the Commonwealth Accounting and Reporting System;
- matters involving internal control and its operations necessary to bring to management's attention; and
- instances of noncompliance with applicable laws and regulations or other matters that are required to be reported.

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## AUDIT FINDINGS AND RECOMMENDATIONS

### Establish Procedures for Preparing the Schedule of Expenditures of Federal Awards

Emergency Management Finance staff was not able to accurately prepare the agency's Schedule of Expenditures of Federal Awards (SEFA) for fiscal 2008. Emergency Management submitted their first SEFA on the due date to the Department of Accounts (Accounts); however, staff knew that the amounts were incorrect. To correct the errors and other problems found with the original and subsequent submissions, Emergency Management Finance staff required three additional months, and the assistance of staff from Accounts, to finally submit an accurate SEFA.

Emergency Management Finance staff lacked the experience, training, and had no written procedures to assist them in the preparation of the SEFA. This is a required federal and state annual report, which is due at the same time each year.

Emergency Management's Finance Department should seek guidance and training on preparing the SEFA and establish detailed procedures for preparing the report. Procedures should include using the agency's chart of accounts to calculate expenditure amounts for each Catalog of Federal Domestic Assistance number. During the preparation of the SEFA, Finance staff should ensure the amounts reported agree with the agency's chart of accounts and expenditure reports.

### Develop Sub-Recipient Monitoring Plans

The grant managers for the State Homeland Security Grant Program and Hazard Mitigation Program are not adequately monitoring the sub-recipients receiving these funds. The Hazard Mitigation and State Homeland Security Grant programs have not implemented a plan that staff will follow and use to monitor sub-recipients to ensure that they are properly spending funds for their intended use. This could result in the Commonwealth having to repay funds if the sub-recipient does not spend the money properly.

Emergency Management does not have any written sub-recipient monitoring plans for these programs. Further, we determined that the Finance Department, Internal Auditor, and Federal Program managers are not sharing information on how well or poorly the sub-recipients are using their funds.

Emergency Management should ensure that there are sub-recipient monitoring programs in place for all federal programs. Development of these plans should include the agency's Finance and Internal Audit staff to help ensure the adequacy of the plans and hopefully eliminate any duplicate work. The monitoring plans should include most of the following components: a scope, methodology, monitoring schedule (if applicable), and monitoring forms or checklists. The plans should document how reviewers will communicate findings to the sub grantee and the central office, and how Emergency Management will ensure implementation of corrective actions. The plans should indicate how Emergency Management will monitor activities, findings, and corrective actions and what process will log and track reports. The plans should clearly indicate who has responsibility for reviewing and following up on sub-recipients' A-133 audit reports. Emergency Management should establish supervisory reviews to ensure that, once implemented, sub-recipient monitoring plans are sufficient.

## FOLLOW UP ON PRIOR YEAR AUDIT FINDINGS

### Properly Report Expenditures on Quarterly Federal Reports

During our 2007 audit, we found that Emergency Management's accounting records did not support the amounts reported as state match on the quarterly financial status reports submitted to the United States Department of Homeland Security for the Public Assistance Grant. During our follow-up review for fiscal year 2008, Emergency Management staff had corrected the reports and were properly reporting the current state match for the Public Assistance Grant. However, Emergency Management did not have written policies and procedures for preparing the quarterly financial status reports and did not report correct amounts for the State Homeland Security Grant Program.

The Finance Department at Emergency Management has experienced significant turnover over the last two years, resulting in the high errors rates, lack of backup documentation, and inaccurate reporting. Management needs to work with the Finance staff and United States Department of Homeland Security to determine how to correct old reports and make sure that current information meets the needs of Emergency Management and Homeland Security.

Emergency Management should establish written policies and procedures for preparing the financial status reports for all grants, ensure personnel responsible for preparing the reports understand the procedures, and maintain adequate supporting documentation.

### Establish Systems Security Program

Emergency Management has made significant progress in documenting their information systems security program. To establish a strong information systems security program, Emergency Management must continue to enhance its documentation, and ensure full implementation of all aspects of the program. During our review, we identified the following areas where management needs to improve documentation and complete implementation needs to occur:

- Enhance Information Technology System and Data Sensitivity Classification
- Enhance Information Technology System Inventory, Boundary Definition, and Ownership Identification
- Implement Security Awareness Training

It is important for agencies that house critical and sensitive information to have robust security surrounding its systems, the failure of which places the Commonwealth at risk of releasing or losing critical information. Agency management will need to recognize that these information security systems require continuous efforts to enhance documentation and make it available to users and ensure full implementation.

### AGENCY HIGHLIGHTS

The Virginia Department of Emergency Management (Emergency Management) directs and coordinates the Commonwealth's Comprehensive Emergency Management Program. Emergency Management works with local governments, state and federal agencies, and voluntary organizations to provide resources and expertise for disasters in four major areas: preparedness, response, recovery, and mitigation. Emergency Management develops and maintains the Commonwealth's emergency plans and blueprints for responses to a variety of scenarios, and assists communities in developing localized emergency operation plans. Emergency Management offers training courses in emergency management, hazardous materials response, and search and rescue. Emergency Management's staff also works with the Federal Emergency Management Agency (FEMA) to coordinate and administer federal financial aid programs after disaster declaration.

### FINANCIAL OPERATIONS

Emergency Management had total expenses of \$67.9 million in fiscal year 2008. Expenses from the Emergency Response and Recovery program and Emergency Preparedness program accounted for the majority of expenses.

#### Analysis of Budget and Actual Expenses

<u>Program</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Expenses</u>
Emergency Response and Recovery	\$ 1,809,206	\$45,235,827	\$36,527,781
Emergency Preparedness	38,971,189	27,612,396	23,809,806
Administrative and Support Services	2,737,553	4,705,078	4,583,806
Virginia Emergency Operations Center	<u>4,552,356</u>	<u>3,486,203</u>	<u>3,024,222</u>
Total	<u>\$48,070,304</u>	<u>\$81,039,504</u>	<u>\$67,945,615</u>

*Source: Commonwealth Accounting and Reporting System*

*Note: Figures do not include capital outlay amounts.*

The increase in the Emergency Response and Recovery program's final budget resulted from an additional \$36.2 million to cover disaster payments for Tropical Storm Ernesto, Hurricane Isabel, June 2006 rains, and the October 2006 flood. Recovery efforts for these disasters are ongoing and can last for several years after the disaster. The program also received a transfer from the Emergency Preparedness program of \$7.5 million. Emergency Management requested additional appropriations in anticipation of an increase in pass-through, grant, and disaster payments during fiscal year 2008. However, since Emergency Management cannot accurately predict when the localities will request reimbursement payments, the agency did not incur all expected expenses, which resulted in actual expenses being less than the final budget.

## Federal Program

Federal grants are the primary funding source for Emergency Management. Both federal and state governments provide assistance for Presidential-declared disasters on a reimbursement basis. In addition, the Commonwealth also provides funds for those disasters declared by the Governor that are not large enough to qualify as a federal disaster. During fiscal year 2008, Emergency Management had three major federal grants: the Public Assistance Grant Program, the Hazard Mitigation Grant Program, and the Homeland Security Grant Program.

Emergency Management expended funds from the Public Assistant Grant Program during fiscal year 2008 to provide assistance to the state, localities, and private not-for-profit organizations in designated emergency or major disaster areas. This grant provides assistance to restore disaster-damaged projects as well as provide sub-grants to local governments and selected private non-profit facilities. The Department may use funds from this grant for removal of wreckage or debris from private or public lands, performing protective emergency measures, transportation assistance and telecommunications, or permanent restoration of eligible facilities. During fiscal year 2008, Emergency Management expended approximately \$24.1 million of federal funds on items or activities allowable to this grant.

In addition, Emergency Management serves as the grant administrator for all funds provided under the Public Assistance Grant Program. Emergency Management provides technical advice and assistance to eligible applicants; provides state support with project identification activities; ensures all potential applicants know of available public assistance; and submits documents necessary for the award of grants. Emergency Management also ensures that applicants adhere to all program and administrative requirements.

The Hazard Mitigation Grant Program (HMGP) is a cost-shared program administered by the Federal Emergency Management Agency (FEMA), the Department of Homeland Security, and Emergency Management. The HMGP mitigates future vulnerability to life and property damage during the recovery and reconstruction process following an actual disaster. FEMA assists States to avoid or lessen the impact of natural hazards through such strategies as safer building practices and the improvement of existing structures and supporting infrastructure. During fiscal year 2008, Emergency Management expended approximately \$4.2 million of federal funds for this grant.

FEMA awards HMGP grants to States, which in turn may award sub-grants to other State agencies, local governments, and other eligible entities. Each State administers the HMGP according to a FEMA-State Agreement, a comprehensive Standard or Enhanced State Mitigation Plan, and a State HMGP Administration Plan. FEMA must approve these plans before States can award funds. FEMA assists the State, approves or denies project applications, and reviews the State's quarterly and final reports.

The Homeland Grant Security Program (HGSP) provides financial assistance to the States and local governments to support activities such as planning, equipment, training, and exercises to address critical resource needs determined by the assessments and priorities outlined within each States' Homeland Security Strategy. Emergency Management expended approximately \$9.4 million of federal funds on this grant during fiscal year 2008.

### Federal Expenses and Transfers

<u>Expense Category</u>	<u>Expense</u>	<u>Percent of Total</u>
Transfer payments	\$37,269,695	80%
Contractual services	5,718,674	12%
Personal services	3,122,832	7%
Other	<u>670,932</u>	<u>1%</u>
Totals	<u>\$46,782,133</u>	<u>100%</u>

*Source: Commonwealth Accounting and Reporting System*

The majority of federal expenses were transfer payments to provide assistance to the state, localities, and private non-profit organizations in designated emergency or major disaster areas. Contractual expenses for fiscal year 2008 were primarily telecommunication expenses, charge card payments, and building maintenance and rental contracts. The remaining expenses were for personal services including payroll and benefit payments, supplies, and equipment.

### State Expenses

In addition to the three major programs, Emergency Management had approximately \$21.3 million in state expenses in fiscal year 2008. The majority of these expenses consisted of transfer payments, payroll, and contractual services.

### 2008 Non-Federal Expenses and Transfers

<u>Expense Category</u>	<u>Expense</u>	<u>Percent of Total</u>
Transfer payments	\$10,410,168	49%
Personal services	5,883,612	28%
Contractual services	4,048,184	18%
Other	<u>970,984</u>	<u>5%</u>
Totals	<u>\$21,312,948</u>	<u>100%</u>

Transfer payments, or disaster assistance to locality payments, provide localities help to cover the cost of disasters not large enough to qualify for federal assistance. They also provide matching funds when federal funds are available. During fiscal year 2008, Emergency Management's transfer payments helped support past disasters such as Tropical Storm Ernesto, Tropical Depression Gaston, Hurricane Isabel, June 2006 rains, as well as the 2006 floods in Southwest Virginia. Emergency Management uses personal services expenses to pay overtime hours during an open disaster as well as the need to increase staffing levels, pending reimbursement from the Federal funds.





# Commonwealth of Virginia

**Walter J. Kucharski, Auditor**

**Auditor of Public Accounts  
P.O. Box 1295  
Richmond, Virginia 23218**

December 22, 2008

The Honorable Timothy M. Kaine  
Governor of Virginia  
State Capital  
Richmond, Virginia

The Honorable M. Kirkland Cox  
Chairman, Joint Legislative Audit  
and Review Commission  
General Assembly Building  
Richmond, Virginia

We have audited the financial records and operations of the **Virginia Department of Emergency Management (Emergency Management)** for the year ended June 30, 2008. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## Audit Objectives

Our audit's primary objectives were to evaluate the accuracy of recorded financial transactions on the Commonwealth Accounting and Reporting System, review the adequacy of the Emergency Management's internal controls, test compliance with applicable laws and regulations, and review corrective actions of audit findings from prior year reports.

## Audit Scope and Methodology

Emergency Management's management has responsibility for establishing and maintaining internal control and complying with applicable laws and regulations. Internal control is a process designed to provide reasonable, but not absolute, assurance regarding the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

We gained an understanding of the overall internal controls, both automated and manual, sufficient to plan the audit. We considered materiality and control risk in determining the nature and

extent of our audit procedures. Our review encompassed controls over the following significant cycles, classes of transactions, and account balances.

Federal grant revenues and expenditures for Public Assistance, Hazard Mitigation, and State Homeland Security Grant Program	Transfer payments
Contractual services expenditures	Payroll expenditures
	Small purchase charge card
	I-9 Compliance
	Network security and system access

We performed audit tests to determine whether Emergency Management's controls were adequate, had been placed in operation, and were being followed. Our audit also included tests of compliance with provisions of applicable laws and regulations. Our audit procedures included inquiries of appropriate personnel, inspection of documents, records, contracts, and reconciliations, and observation of Emergency Management's operations. We tested transactions and performed analytical procedures, including budgetary and trend analyses.

### Conclusions

We found that Emergency Management properly stated, in all material respects, the amounts recorded and reported in the Commonwealth Accounting and Reporting System. Emergency Management records its financial transactions on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The financial information presented in this report came directly from the Commonwealth Accounting and Reporting System.

We noted certain matters involving internal control and its operation and compliance with applicable laws and regulations that require management's attention and corrective action. These matters are described in the section entitled "Audit Findings and Recommendations."

Emergency Management has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this letter.

### Exit Conference and Report Distribution

We discussed this report with management on *January 14, 2009*. Management's response has been included at the end of this report.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

AVG/wdh



# COMMONWEALTH of VIRGINIA

## *Department of Emergency Management*

MICHAEL M. CLINE  
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January 21, 2009

Mr. Walter J. Kucharski  
Auditor of Public Accounts  
P. O. Box 1295  
Richmond, VA 23218

Dear Mr. Kucharski:

We appreciate the opportunity to review and respond to the recent Auditor of Public Accounts' Audit Findings and Recommendations for 2008.

Recognizing we have had significant turnover in the Finance Division that impacted those areas, we concur with your findings and are in the process of addressing all of the issues identified.

We look forward to working with the Auditor of Public Accounts to address these and other issues as the Virginia Department of Emergency Management continues to find the best way to provide for the public safety of the Commonwealth.

Sincerely,

Brett A. Burdick

BAB/VDW:mmmb

C: The Honorable John Marshall  
Secretary of Public Safety  
Michael Cline  
Janet Clements

JAN 26 '09 AM 11:04

## AGENCY OFFICIALS

### VIRGINIA DEPARTMENT OF EMERGENCY MANAGEMENT

Michael M. Cline, State Coordinator

Janet L. Clements, Deputy Coordinator

Brett Burdick, Deputy Coordinator

Victoria Williams, Chief Financial Officer